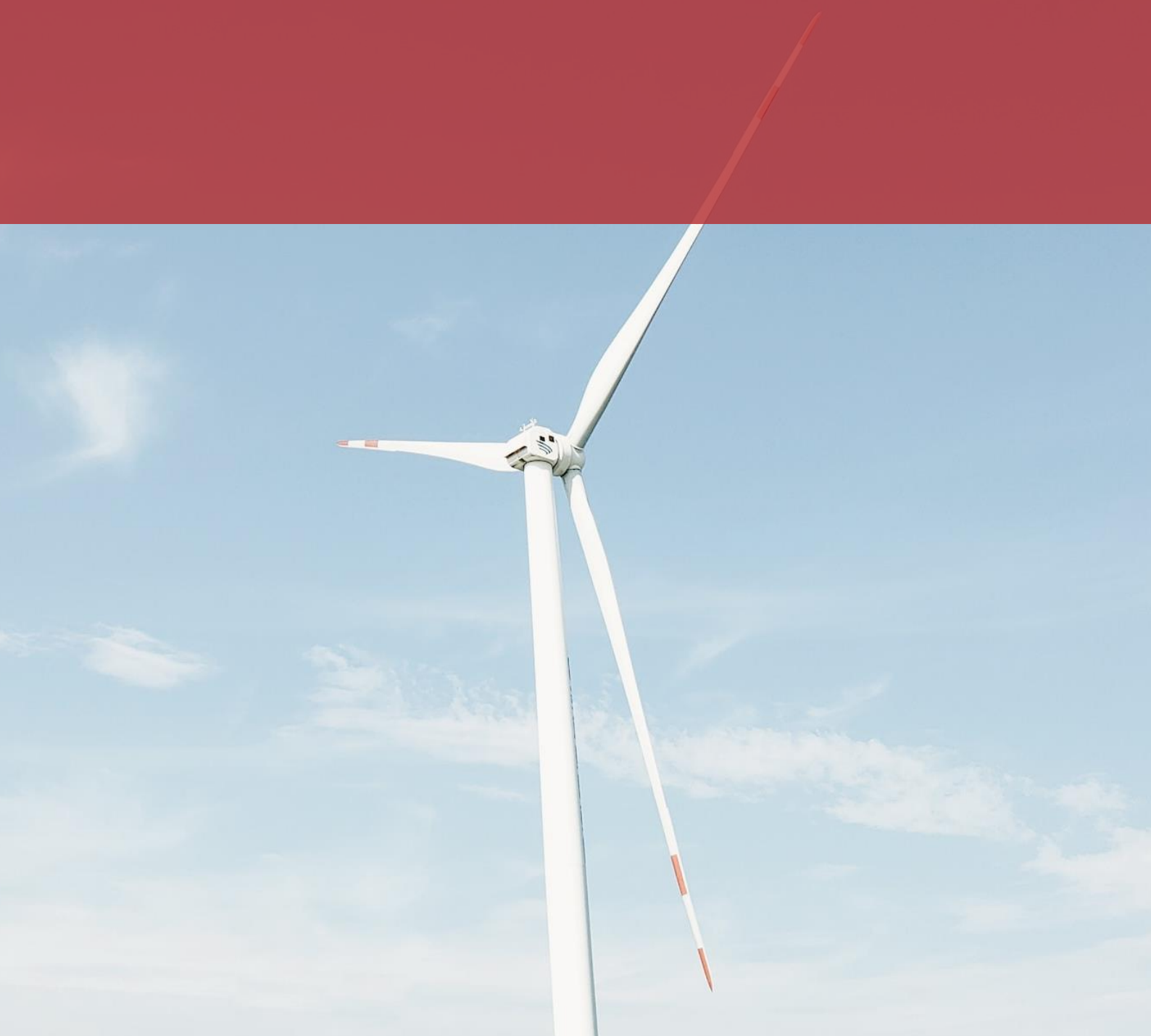


Climetrics Methodology

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Methodology summary

Climetrics is a rating system that assesses funds on environmental factors. It scores thousands of companies for their impact and performance in the areas of *GHG emissions*, *water security*, and *deforestation*, and assigns a rank to each fund based on the weighted average score of its holdings. The ratings range from 1 to 5, with 5 indicating the highest environmental performance relative to all other funds in the available universe. Its main goal is to identify funds that contribute to the ecological *transition* of the economy.

Climetrics leverages data and research from CDP and Clarity AI, two leading providers of environmental, social and governance (ESG) information. The ratings are updated regularly using Clarity AI's fund database.

What Climetrics measures

Climetrics evaluates funds based on the environmental impact, transparency, and performance of their portfolio companies. Its most influential assessment criteria are environmental scores, materiality assessments, and the exposure to green technologies and fossil fuels. The rating also considers the greenhouse gas emissions targets and transition plans of funds' investee companies.

A fund can achieve a higher rating by investing more in companies that either perform well on material environmental issues or provide climate-friendly products. It is harder for funds to get a top rating if they only invest in companies with a low environmental impact.

The rating uses a best-in-universe methodology, meaning that each fund is benchmarked against thousands of other funds.

Relevance for managing environmental risks and protecting nature

Suitability for managing environmental risks and opportunities

Climetrics favours funds that invest in companies with material impacts and associated risks that actively seek to reduce their future negative impact. As such, Climetrics aims to reduce future environmental risks in the economy by supporting the ecological transition.

It is less suitable for assessing specific risks in a fund and as a relative rating, it does not allow any statement on a fund's absolute level of environmental risk. Overall, Climetrics does not aim to predict how climate change or nature loss

will affect the future performance of funds. Rather, its main purpose is transition finance.

In that respect, Climetrics may also be used for identifying green tech investment opportunities as it typically gives high ratings to funds that invest in companies providing low carbon solutions across various sectors.

Contribution to a positive impact on nature

It is worth noting that fund ratings such as Climetrics evaluate funds trade securities in the secondary market. Therefore, the direct and immediate effect on nature from choosing highly rated funds is minimal.

However, the rating can have a significant downstream impact. This could occur when fund managers demand better environmental transparency and performance from companies, in response to increased customer preference for highly ranked funds. This increased shareholder pressure could lead to companies improving their environmental disclosure and performance.

Climetrics reinforces this mechanism by using data from CDP's global disclosure platform. CDP's platform is used by more than 18,700 companies worth half of global market capitalization.

Company score calculations

The Climetrics fund rating is based on an evaluation of the portfolio constituents of funds and thus, at its core, on an environmental assessment of companies. Company scores are calculated for all scored and publicly disclosing companies of the annual CDP disclosure sample, i.e., close to 10,000 companies receiving the annual disclosure request on behalf of CDP investor signatories.

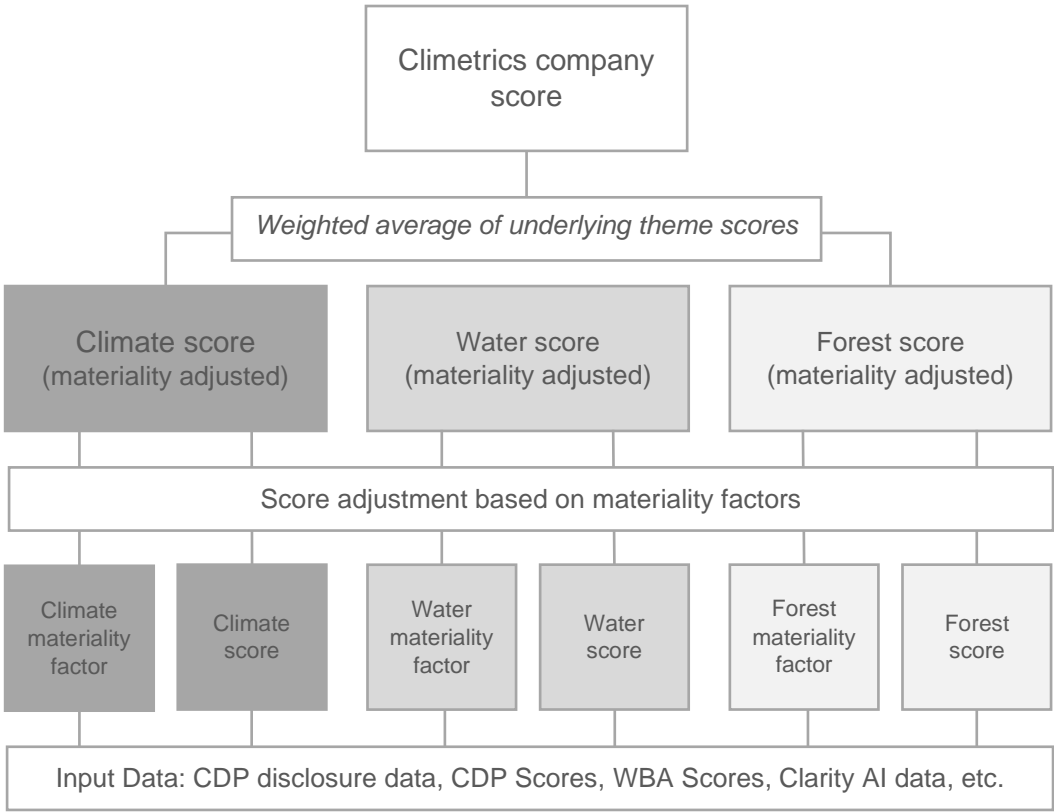
A bespoke methodology to score companies on environmental risks and opportunities and performance was developed for Climetrics. The methodology uses data from CDP, Clarity AI, and the World Benchmarking Alliance (WBA)¹. Annex 1 provides a list of the data points used, how they are scored and

¹ WBA benchmarks are compiled in conjunction with CDP using [ACT methodologies](#). ACT stands for 'Assessing low-Carbon Transition' and is an initiative which supports and assesses how ready an organization is to transition to the low-carbon economy using a future-oriented, sector specific methodology. It was founded by [CDP and ADEME](#). WBA scores are used, if available, in the automobile, oil & gas, transport, building and electric utilities sectors. The scores are publicly available at: <https://www.worldbenchmarkingalliance.org/climate-and-energy-benchmark/>

subsequently weighted in each of the thematic areas of climate, water security and deforestation. In each area, company scores are calculated on a scale from 0 to 100.

These scores are then adjusted based on thematic materiality factors. These factors define how relevant each environmental theme is for a company. They are expressed on a four-level scale and primarily derived from an environmental impact or dependency analysis of industries and their value chains by CDP’s thematic experts (see Annex 2 for further detail). Scores and materiality factors are used to derive materiality adjusted thematic company scores as shown in the following chart.

Chart 1: Components and calculation of the Climetrics company score



In this regard, a high materiality factor allows for both higher and lower adjusted scores, whereas a low materiality factor limits the adjusted scores toward the middle of the 0-100 range. This way, the adjusted score reflects both a company’s *relevance* for the transition to a nature-positive economy in the respective area *and* its related *performance*.

The **final company score** is the materiality weighted average of its underlying thematic adjusted scores. In this calculation, the adjusted climate score is

systematically weighted higher due to the more granular assessment performed under this theme compared to the other themes. The scores are not normalized at the sector or industry-level meaning they are not adjusted based on a best-in-class approach.

Portfolio score calculations

A fund's portfolio score is the portfolio weighted average of the underlying holdings' company scores. Portfolio scores are expressed on a scale from 0 and 100 and based on the individual company scores and their respective weights in the fund. Where a company score is not available, percentage weights of companies with scores are normalized to 100% as shown in table 1.

Table 1: Portfolio holdings score calculation

	Weight	Climetrics company score	Normalised Weight	Normalised Weight x Score
Company A	20%	75	24%	18
Company B	35%	58	41%	24
Company C	30%	27	35%	9
Company D	15%	N/A	0%	N/A
Portfolio Score				51

Cash and short positions are excluded and Climetrics does not rate the sovereign bond or derivatives exposure of funds.

Fund rating calculation

The portfolio scores are used to rank funds on a scale from 1 to 5, with 5 being the best.

Coverage requirement

For a fund to receive a rating, at least 60% of the value of its portfolio must be covered by a Climetrics company score.

Funds are first sorted by percentile rank in descending order. Then, a normal distribution is assumed to allocate a share of funds to each rank as shown in table 2. A specific threshold condition applies to the 5-leaf category.

Table 2: Climetrics ratings distribution

Rating	Percentage distribution
1 leaf	Lowest 10%
2 leaf	Next 22.5%
3 leaf	Next 35%
4 leaf	Next 22.5% (minimum)
5 leaf	Next 10% (maximum)

Threshold criterion

A 5-leaf rating is reserved for those funds that have a 4-leaf rating and a portfolio score equal or higher than 65. As such, the actual share of funds with a 5-leaf rating may be lower than 10%, with the remaining funds added to the 4-leaf category.

No specific exclusion or inclusion criteria

Climetrics does apply specific exclusion or inclusion criteria with respect to environmental technologies or business models. However, the company scoring methodology provides strong premiums for companies active in green technologies and strong discounts for fossil companies. Investments by funds in these companies therefore have a strong impact on the portfolio score as

well as the fund rating. Climetrics uses this approach to fossil fuel exclusions to account for different impact strategies of asset managers.

Historical score averaging

Climetrics considers the historical performance of each fund by using a 12-month average portfolio score in the rating calculation, when available.

Peer group quartile rankings

Climetrics ratings are accompanied by additional peer group quartile ratings. These ratings reflect a 'best-in class' approach to fund scoring meaning that a fund's performance is compared against that of its peers, i.e., funds from homogenous and comparable groups based on their prevailing underlying asset type or investment strategy, as well as additional criteria such as geographic focus, market capitalization or navigating currency. The peer group ranks help investors select more environmentally friendly funds in those peer groups that tend to score poorly under the best-in-universe approach, for instance, emerging market funds.

A 1st quartile peer group rating means that a fund is among the best 25% of all funds within its peer group. Peer group ranks are based on Clarity AI's peer group classifications and only assigned if there are least 10 funds rated in any given peer group.

Table 4: Peer group quartile rating

Peer group quartile rank	Quartile distribution	Description
1st	Highest 25%	The fund is among the best 25% within its peer group
2nd	Next 25%	The fund is among the best 50% within its peer group
3rd	Next 25%	The fund is among the worst 50% within its peer group
4th	Lowest 25%	The fund is among the worst 25% within its peer group

The fund universe

The Climetrics rating covers actively approximately 23,000 managed funds and ETFs available for sale in Europe, the US and Asia. To receive a Climetrics rating, a fund must meet the following criteria:

- At least 60% of the fund's assets under management must have a Climetrics company score.
- The latest full holdings data must be less than 12 months old.
- The fund must be available in the Clarity AI database. (Funds missing from the universe might be added through Clarity AI.)

Frequency of calculations

The Climetrics ratings are calculated and updated on an ongoing basis and may change each time new fund holdings information becomes available. Fund holdings information is provided to Clarity AI by different data providers regularly.

Annex 1: Company score metrics

Table 4: Metrics used in the calculation of thematic company scores

Theme:	Climate change score*			Water security score			Deforestation score		
Category	Metric	Scoring	Weight	Metric	Scoring	Weight	Metric	Scoring	Weight
Past performance	CDP GHG trend score (Compound annual growth rate derived from historical trends in absolute Scope 1+2 GHG emissions over a period up to 6 years)	0 points ($\geq +1\%$) 60, 70, 80 or 100 points (-1% to $\leq -7\%$)	20%	-	-		-	-	
Current disclosure & management	CDP score (climate change)	0 – 100 (F to A)	70%	CDP score (water)	0 – 100 (F to A)	100%	CDP score (forests), weighted average**	0 – 100 (F to A)	100%
Forward-looking ambition	CDP Temperature Rating	0 – 100 (3.1°C to 1.5°C)	10%	-	-		-	-	
Fossil fuel & green technology exposure	Low-carbon technology provider	100	60% (if applicable, other weights are	-	-		-	-	
	Fossil fuel reserves, extraction, refining & marketing	0		-	-		-	-	

	Large coal power production capacity	0	adjusted lower)	-	-		-	-	
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*** For companies from the automobile, oil & gas, building, transport and electric utilities sectors ranked by the World Benchmarking Alliance (WBA), the WBA total score normalized on a scale from 0 – 100 is used as the final climate change score.**

**** Weighted average across up to four deforestation sub-scores (each linked to one of four agricultural commodities)**

Weightings of thematic scores in the calculation of the final company score: The final company score is the materiality weighted average of (materiality adjusted) thematic scores (see chart 1). Weights range from 25% (lowest materiality) to 100% (highest materiality) for climate change scores and 12.5% to 50% for water and forest scores (i.e. the climate score is always double-weighted). Where water and/or forest is not material, there is no theme score and weights are allocated to other themes.

Annex 2: Climetrics materiality factors explained

Companies are assigned materiality factors on a four-level scale (25/50/75/100). For climate change, materiality factors are based on an assessment of each company's level of absolute GHG emissions and the average emissions of companies with the same primary business activity. This analysis includes reported and estimated Scope 1, 2 and 3 GHG emissions. Companies outside the financial services sector with total Scope 1+2+3 emissions of at least 25,000,000 tCO₂ are assigned a materiality factor of 100 irrespective of their business activity classification. Irrespective of the results of the GHG emissions analysis, the highest materiality factor is assigned to companies providing green or fossil fuel related products and services.

For water and deforestation, materiality factors are defined based on the CDP analysts' proprietary research and analysis into business activities and their associated impacts. For example, the water materiality is based on a water impact assessment conducted on over 200 business activities. Each activity is assessed on two criteria: firstly, its dependence on relatively high volumes of freshwater withdrawal and/or consumption and secondly, its water pollution/degradation potential. This assessment is done across three areas of the value chain, covering direct operations, supply chain and product use. Activities are scored across all six indicators and summed to obtain an overall water impact score for each activity.

Whereas all companies in the Climetrics universe receive a materiality factor for climate change, only a subset of companies receives materiality factors for water and deforestation as these issues are not material for all companies. Materiality factors are used to calculate thematic net scores and, where applicable, in the aggregation of thematic net scores into the final Climetrics company score (see chart 1).

For more information about the Climetrics company scores, please contact one of our team at climetrics@cdp.net

About CDP

CDP is a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 740 financial institutions with over \$130 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Nearly 20,000 organizations around the world disclosed data through CDP in 2022, including more than 18,700 companies worth half of global market capitalization, and over 1,100 cities, states and regions. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative. Visit cdp.net or follow us @CDP to find out more.

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